

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:29

ANSWERED ON:10.08.2007

CHARGING OF HIGHER RATE OF INTEREST

Chavda Shri Harisinh Pratapsinh; Vasava Shri Mansukhbhai D.

Will the Minister of FINANCE be pleased to state:

to the reply given to Unstarred Question No.3513 dated December 15, 2006 and state:

- (a) whether the information regarding imposition of higher interest rate on farmers in comparison to businessmen has been collected;
- (b) if so, the details thereof; and
- (c) if not, the reasons for delay in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (c) : Yes, Sir. The information relating to interest rate on term loans to agriculture related activities in comparison with term loans for small business/ enterprises relating to rural farm sector activities has been collected, on a sample basis from a few Cooperative Banks and Regional Rural Banks. On analysis of this information it infers that the rate of interest on agriculture term loans range between 10% - 14.25 % per annum, while that for Business loan ranges between 10% to 16.5% per annum. In some of the States the Governments are providing interest subvention on agriculture loan and hence these rates are lower.

As per the extant interest rate policy of Reserve bank of India (RBI) interest rates on loans given by commercial banks (including loans granted to farm sector) have been deregulated, except that the interest rate on loans up to 2 lakh should not exceed the Benchmark Prime Lending Rate (BPLR) of the banks concerned. Commercial banks are, therefore, free to decide their lending rates on loans above Rs. 2 lakh subject to the announcement of BPLR. Banks are also free to lend at sub-BPLR rates to creditworthy borrowers based on an objective and transparent policy, subject to the approval of their Boards. Banks decide their BPLR by taking into account, inter alia, their cost of funds, transaction cost and risk cost. As regards RRBs and Co-operative Banks too, the interest rates on loans have been completely deregulated.

To reduce the burden of interest on Crop Loans availed by farmers for Kharif and Rabi 2005-06, an amount equal to two percentage points of the borrower's liability on the principal amount upto Rs. 1,00,000/- each was credited to their account. Thereafter, from Kharif 2006, to ensure that the farmer receives Short-Term Production Credit at 7% with an upper limit of Rs.3 lacs on the principal amount, the Government is providing interest subvention of 2% per annum to Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Banks on their lending from their own resources and refinance at concessional rates to cooperative banks and RRBs on their borrowings from NABARD.